Year End Forecast Update

Fiscal 2000-2001. Released December 14, 2000 — Honorable Neil J. LeBlanc, Minister of Finance

OVERVIEW 2000-2001

Higher than anticipated revenues are forecast to result in a lower deficit than estimated in the 2000-2001 budget. The deficit for 2000-2001 is now forecast to be $259.8 million, $8.2 million less than budgeted.

Revenues are forecast to be $105.2 million higher than budgeted. The revised economic forecast and new data relating to Canadian and Nova Scotia personal income indicate personal income tax revenues will be $28.2 million higher than budgeted in April. Harmonized Sales Tax revenues are expected to be $8.5 million higher than budgeted due to revisions made by the federal government to the estimated total of the national GST and HST revenue pool. Petroleum royalties are forecast to be $3.0 million higher than budgeted due to the expectation that gas prices will remain strong in 2001. Lower than expected fuel sales and a large, single rebate have resulted in motive fuel tax revenue to be forecast at $12.3 million less than budgeted.

Updated population data from Statistics Canada have resulted in higher than budgeted federal equalization payments of $28.8 million, and Canada Health and Social Transfer payments of $3.1 million. The updated population statistics and revised tax base information have also lead to increased revenue of $45.0 million based on prior year's adjustments.

2000-2001 FISCAL SUMMARY *($ thousands)*	**Budget**	**Forecast**	**Per Cent (%) Change from Budget Fav (Non-Fav)**
Consolidated Fund			
Revenue	**4,794,941**	**4,900,211**	**2.20** %
Net Program Expenses			
Health	1,686,140	1,713,327	(1.61) %
Education and Universities	1,060,064	1,068,821	(0.83) %
Community Services	575,989	583,623	(1.33) %
Other Net Program Expenses	735,784	737,108	(0.18) %
Restructuring Costs	88,035	78,023	11.37 %
Total - Net Program Expenses	4,146,012	4,180,902	(0.84) %
Net Debt Servicing Costs	899,122	909,182	(1.12) %
Total Expenses	**5,045,134**[1]	**5,090,084**	**(0.89)** %
	(250,193)	**(189,873)**	
Consolidation and Accounting Adjustments for Government Service Organizations			
Health and Hospital Boards	...	(34,589)	
School Board Operations	...	(2,543)	
	...	**(37,132)**	
Net Income (Losses) for Government Business Enterprises			
Nova Scotia Resources Limited	(25,900)	(40,800)	
Sydney Steel Corporation	...	...	
Other Enterprises	8,000	8,000	
	(17,900)	**(32,800)**	
Provincial Surplus (Deficit)	**(268,093)**	**(259,805)**	**3.09** %

OVERVIEW 2000-2001 (continued)

Higher revenues are off-setting increases in program expenses ($34.9 million), debt servicing costs ($10.0 million), and increased costs in health, hospital and school boards ($37.1 million).

The $10.0 million forecast increase in net debt servicing costs is attributable primarily to the lower Canadian dollar. The lower Canadian dollar has also increased foreign exchange losses for Nova Scotia Resources Limited. The provision for losses at NSRL has also been revised to reflect a change in forecasted year end results.

Economic growth remains stronger than the 1.8 percent estimated in the April budget. In the previous update report, the outlook for the province's real Gross Domestic Product (GDP) growth for 2000 was increased to 2.4 percent. Statistics Canada's most recent releases on key economic data indicate that the GDP growth rate for the year will be even higher.

REVENUES

Several revenue sources are forecast to result in higher than budgeted revenues in 2000-2001: personal income tax, harmonized sales tax, Equalization and CHST. In addition the province is expecting a positive prior years' adjustment of $45.0 million.

Personal income tax revenues are expected to be $28.2 million higher than budget due to revised economic indicators relating to Canadian and Nova Scotia personal income.

REVENUE SUMMARY *($ thousands)*	**2000-2001 Budget**	**2000-2001 Forecast**	Fav (Non-Fav) **Change from Budget**
Provincial Revenue Sources			
Personal Income Taxes	1,144,925	1,173,136	28,211
Corporate Income Taxes	161,653	161,653	---
Harmonized Sales Tax	786,309	794,792	8,483
Motive Fuel Taxes	232,335	220,035	(12,300)
NS Gaming Corporation	175,119	175,119	---
NS Liquor Commission	141,000	141,000	---
Other Provincial Revenues	343,212	347,062	3,850
Total - Provincial Revenue	**2,984,553**	**3,012,797**	**28,244**
Federal Revenue Sources			
Equalization	1,279,630	1,308,480	28,850
CHST	522,928	526,043	3,115
Other Federal Sources	7,830	7,830	---
Total - Federal Revenue	**1,810,388**	**1,842,353**	**31,965**
Prior Years' Adjustments	---	**45,061**	**45,061**
Total Revenue	**4,794,941**	**4,900,211**	**105,270**

REVENUES (continued)

HST revenues are expected to be $8.5 million higher than estimated at budget time. The change is in large part due to revisions made by the federal government to the estimated national declared revenue pool, the national total of GST and HST revenues collected by the Canada Customs and Revenue Agency (formerly Revenue Canada). The current estimate of the declared revenue pool is being adjusted upward based on actual collections in previous years.

Motive Fuels taxes have been revised downward by $12.3 million from budget as a result of lower than expected fuel sales and a large single rebate.

The prior years' adjustments affect provincial government revenues that are paid to or collected on the province's behalf by the federal government. Adjustments for 2000-2001 are currently forecast to be $45.0 million, and are due to a combination of personal income taxes, HST revenues, Equalization and CHST payments.

NET PROGRAM EXPENSES SUMMARY *($ thousands)*	**2000-2001 Budget**	**2000-2001 Forecast**	Fav (Non-Fav) **Change from Budget**
Agriculture and Marketing	33,537	34,092	(555)
Business and Consumer Services	31,201	31,201	---
Community Services	575,989	583,623	(7,634)
Economic Development	49,033	49,033	---
Education and Universities	1,060,064	1,068,821	(8,757)
Environment	13,132	12,916	216
Finance	9,298	9,298	---
Fisheries and Aquaculture	5,716	5,716	---
Health	1,686,140	1,713,327	(27,187)
Housing and Municipal Affairs	88,663	88,663	---
Human Resources	3,986	3,986	---
Justice	82,293	82,293	---
Labour	8,689	8,278	411
Natural Resources	52,090	52,280	(190)
Public Service	76,244	78,514	(2,270)
Tourism and Culture	38,388	38,388	---
Transportation and Public Works	243,514	242,450	1,064
Restructuring Costs	88,035	78,023	10,012
Total - Net Program Expenses	**4,146,012**	**4,180,902**	**(34,890)**

NET PROGRAM EXPENSES

Departmental spending is forecast to be $34.9 million higher than budgeted, primarily in Health, Education and Community Services. In Health, increases in home care, acute care, medical payments, Emergency Health Services and Canadian Blood Service costs were offset by decreases in other areas including capital grants and administration for a net forecast increase of $27.1 million.

The Department of Education is forecast to be $8.7 million over the amount budgeted, largely due to a change in the expected accounting treatment for the Information Economy Initiative and additional capital non-tangible capital assets costs.

NET PROGRAM EXPENSES (continued)

Community Services has experienced higher than budgeted expenses in long term care, community based options rehabilitation workshops and child maintenance. These increases have been offset by decreased spending in income assistance, primarily resulting from lower case loads. The net increase at Community Services for 2000-2001 is forecast to be $7.6 million

Responding to flooding this fall means the Emergency Measures Organization is now forecasting additional expenditues of $2.0 million for this fiscal year. This amount is reported in the Public Service line.

These increases have been partially off-set by a forecast under-expenditure of $10.0 million in the restructuring budget.

DEBT MANAGEMENT

Net debt servicing costs (DSC) are calculated by subtracting sinking fund earnings from gross debt servicing costs. DSC in fiscal 2000-2001 were budgeted at $899.1 million, and are now forecast to be $909.1 million, up $10.0 million. The increase is due to a number of factors, but largely to the recent fall in the Canadian dollar and sinking fund earnings are forecast to be less than the budget estimate. This has been somewhat offset by interest rates being favourable compared to budget assumptions. The current assumption for the Canadian dollar is $1.549 ($0.646 USD/CAD), for Canadian treasury bills is about 5.7 percent and for the Japanese Yen is 108.6 Yen/USD.

Debt servicing costs include the province assuming the marketable debt of Nova Scotia Resources Limited (NSRL) as of December 1, 2000. As government is proceeding with the sale of NSRL, and the proceeds are unknown at this time, only part of these costs have been included in DSC for 2000-2001.

BORROWING PROGRAM

The province's borrowing requirements for 2000-2001 are projected at $1.1 billion after taking into account the pre-borrowing accomplished in the previous year, unchanged from the budget. To date in 2000-2001, the Province has raised $600.0 million of its planned borrowing by way of two 10-year domestic issues for $300.0 million each, and a number of private placements totaling $245.0 million.

HEALTH AND HOSPITAL BOARDS

As previously reported, health and hospital boards are permitted to run deficits in 2000-2001 due to the delayed implementation of their business plans. These deficits are forecast to total $34.5 million.

OVERVIEW 2000-2001

Increased revenues have resulted in the Department of Finance revising the deficit forecast for 2000-2001. Revenues are forecast to be $49.7 million higher than estimated in the April budget. This increase more than offsets deficits expected by health and hospital boards as a result of the delayed implementation of their business plans. As a result, the deficit for 2000-2001 is now forecast to be $261.8 million, $6.3 million less than estimated in April.

Personal income tax and Harmonized Sales Tax revenues are forecast to be $24.1 million higher than estimated. Prior years adjustments, which are revisions to revenues collected in previous years, account for an additional $25.6 million in revenues.

2000-2001 FISCAL SUMMARY *($ thousands)*	**2000-2001 Budget**	**2000-2001 Forecast**	**Per Cent (%) Change from Budget Fav (Non-Fav)**
Consolidated Fund			
Revenue	**4,794,941**	**4,844,666**	**1.04 %**
Net Program Expenses *			
Health	1,686,140	1,693,927	(0.46)%
Education and Universities	1,060,064	1,063,437	(0.32)%
Community Services	575,989	581,032	(0.88)%
Other Net Program Expenses	823,819	820,811	0.37 %
Total - Net Program Expenses	4,146,012	4,159,207	(0.32)%
Net Debt Servicing Costs	899,122	899,122	--- %
Total Expenses	**5,045,134**	**5,058,329**	**(0.26)%**
	(250,193)	**(213,663)**	
Consolidation and Accounting Adjustments for Government Service Organizations			
Health and Hospital Boards	---	(30,244)	
	---	**(30,244)**	
Net Income (Losses) for Government Business Enterprises			
Nova Scotia Resources Limited	(25,900)	(25,900)	
Sydney Steel Corporation	---	---	
Other Enterprises	8,000	8,000	
	(17,900)	**(17,900)**	
Provincial Surplus (Deficit)	**(268,093)**	**(261,807)**	**2.34 %**

* Net Program Expenses includes Restructuring Costs

OVERVIEW 2000-2001 (Continued)

On the expense side, government departments are generally holding firm. Net program expenses, which cover most spending in government departments and agencies, is forecast to be 1/3 of a percentage point off the budget estimate. Expenses are now forecast to be $13.2 million higher than estimated in April.

In responding to the regional health boards' and hospital business plans in June, the government recognized that cost savings resulting from health care restructuring would not be fully realized in the current fiscal year. As a result, these organizations were permitted to run deficits, forecast to be $30.2 million.

The Nova Scotia economy is growing stronger than expected. Real Gross Domestic Product is forecast to grow by 2.4 percent in 2000, compared to the budget estimate of 1.8 percent. The outlook for improved economic growth is reflected in higher than expected increases in employment, personal income, corporate profits and exports as the provincial economy benefits from the continuing sustained economic expansion in North America.

Debt servicing costs remain unchanged at $899.1 million. The provinces borrowing program is on schedule and foreign exchange exposure continues to be reduced consistent with the budget plan.

REVENUES

Two revenue sources are forecast to result in higher than budgeted revenues in 2000-2001: personal income tax and Harmonized Sales Tax. In addition, the province is expecting a positive prior years' adjustment. Data relating to Nova Scotia and national personal income, revised since the April budget, point to higher than expected personal income tax revenues. These revenues are now forecast to be 1.4 percent, or $15.6 million higher than budgeted.

HST revenues are expected to be higher than estimated at budget time by 1.1 per cent or $8.5 million. The change is in large part due to revisions made by the federal government to the estimated national declared revenue pool, the national total of GST and HST revenues collected by the Canada Customs and Revenue Agency (formerly Revenue Canada). The current estimate of the declared revenue pool is being adjusted upward based on actual collections in previous years.

The prior years' adjustments affect provincial revenues that are paid to or collected on the province's behalf by the federal government. Adjustments for 2000-2001 are currently forecast to be $25.6 million, and include $24.2 million in HST revenues and $1.4 million in personal income tax.

All other revenue sources, including fuel taxes, gaming revenues and liquor commission profits are forecast to remain as budgeted.

NET PROGRAM EXPENDITURES

Departmental spending is over by $13.2 million. Health, Education and Community Services will be over spent by $16.2 million, while Transportation and Public Works is projecting an under-expenditure of $3.0 million.

Health over-expenditures of $7.8 million are the result of increased medical payments and the wage settlement with emergency dispatchers.

NET PROGRAM EXPENSES SUMMARY *($ thousands)*	**2000-2001 Budget**	**2000-2001 Forecast**	**Change from Budget Fav (Non-Fav)**
Agriculture and Marketing	33,537	33,537	—
Business and Consumer Services	31,201	31,201	—
Community Services	575,989	581,032	(5,043)
Economic Development	49,033	49,033	—
Education and Universities	1,060,064	1,063,437	(3,373)
Environment	13,132	13,132	—
Finance	9,298	9,298	—
Fisheries and Aquaculture	5,716	5,716	—
Health	1,686,140	1,693,927	(7,787)
Housing and Municipal Affairs	88,663	88,663	—
Human Resources	3,986	3,986	—
Justice	82,293	82,293	—
Labour	8,689	8,689	—
Natural Resources	52,090	52,090	—
Public Service	76,244	76,244	—
Tourism and Culture	38,388	38,388	—
Transportation and Public Works	243,514	240,506	3,008
Restructuring Costs	88,035	88,035	—
Total - Net Program Expenses	**4,146,012**	**4,159,207**	**(13,195)**

Education over-expenditures of $3.4 million are resulting from increased contributions to the Teachers' Pension Plan, increased Acadian and French language program costs, and increased contributions to school boards.

Increased pharmacare costs and expenses under the Child Maintenance Program have resulted in a forecast over-expenditure of $5.0 million for Community Services.

The under-expenditure by Transportation and Public Works is a result of the change in accounting policy announced in the April budget. Certain projects were budgeted under the old policy and have now been corrected to the new policy.

DEBT MANAGEMENT

Net debt servicing costs are calculated by subtracting sinking fund earnings from debt servicing costs. Debt servicing costs are forecast to be down $4.4 million due to a number of factors, but generally interest rates have been favourable compared to budget assumptions. Offsetting those favourable conditions have been a weaker Canadian dollar than budget assumptions for the first number of months of the fiscal year, and sinking fund earnings are forecasted to be less than the budget estimate. The current assumption for the Canadian dollar is $1.4815 ($0.675 USD/CAD), for Canadian treasury bills is about 5.5% and for the Japanese Yen is 108.5 Yen/USD.

BORROWING PROGRAM

The Province's borrowing requirements for 2000-2001 are projected at $1.4 billion, unchanged from the Budget estimate. To date in 2000-2001, the Province has raised $325.0 million of its planned borrowing by way of a 10 year domestic issue for $300.0 million and one private placement of $25.0 million.

HEALTH AND HOSPITAL BOARDS

Consistent with the June 24, 2000 announcement by the Department of Health, the health and hospital boards are now forecasting to run deficits of approximatley $30.2 million. These deficits are resulting from delayed implementation of their business plans.

NOVA SCOTIA RESOURCES AND SYDNEY STEEL

Consistent with past reporting practices, consolidated financial reporting for NSRL is based on publicly released results. The second Forecast Update normally includes the first quarter results for NSRL.

Any gains or losses associated with the sale or closure process for Sysco will be charged against the $378.5 million provision made in 1999-2000.

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